

MINUTES
HOUSE REVENUE & TAXATION COMMITTEE

Tuesday, February 28, 2012

TIME: 9:00 A.M.

PLACE: Room EW42

MEMBERS: Chairman Lake, Vice Chairman Collins, Representative(s) Barrett, Moyle, Raybould, Roberts, Schaefer, Smith(24), Wood(35), Bedke, Harwood, Barbieri, Bayer, Ellsworth, Gibbs, Killen, Burgoyne, Rusche

**ABSENT/
EXCUSED:** Representative Smith(24)

GUESTS: Donna Yule, Idaho Public Employees Association (IPEA); Elizabeth Criner, Northwest Food Processors Association (FWFPA) and J.R. Simplot Company; John Watts, Idaho Chambers of Commerce Alliance; David Hensley, Office of the Governor; Jeff Sayer, Department of Commerce; Russ Hendricks, Idaho Farm Bureau Federation; Wayne Hammond, Division of Financial Management (DFM); Brent Olmstead, MP Idaho; Benjamin Davenport, Risch Pisca; Randy Nelson, Associated Taxpayers of Idaho (ATI); Alex LaBeau, Idaho Association of Commerce & Industry (IACI); Colby Cameron, Sullivan Reberger Eiguren (SRE); Suzanne Budge, National Federation of Independent Business (NFIB)

Chairman Lake called the meeting to order at 9:01 am.

RS 21289C1: **Rep. Lacey** presented **RS 21289C1**. The proposed legislation provides incentives for Idaho farmers and ranchers to provide additional processing facilities within the State. It allows tax credit up to 30% of the investment on new facilities with cap of \$500K. The credit may be utilized by claiming one-half of the tax liability until the cap is realized for a period of up to 14 years. There is no expense to the State of Idaho and allows for a return on investment. It will create additional jobs and keep work in the state.

Rep. Pence said this will provide value-added jobs for Idaho. In statistics produced by the University of Idaho, agriculture is the top output of all Idaho industries at \$19B. There is no particular company that the proposed legislation assists.

In response to Committee questions, **Rep. Lacey** said that research qualifies for the credit as part of the bill. The legislation covers adding value to an existing business, not just to a new business. It is created for those who want to expand. The Director of the Department of Commerce agrees with this idea. The 30% credit was determined in an effort to entice people to do something large. A \$1.6M investment would get the \$500K tax credit.

MOTION: **Rep. Burgoyne** made a motion to introduce **RS 21289C1**.

**SUBSTITUTE
MOTION:** **Rep. Barrett** made a substitute motion to return **RS 21289C1** to the sponsor.

**VOTE ON
SUBSTITUTE
MOTION:** Roll call vote was requested. **Motion failed by a vote of 6 AYE, 10 NAY and 2 Absent/Excused.** Voting in favor of the motion: **Reps. Collins, Barrett, Moyle, Raybould, Harwood, Bayer.** Voting in opposition to the motion: **Reps. Roberts, Schaefer, Wood(35), Bedke, Barbieri, Ellsworth, Killen, Burgoyne, Rusche, Lake.** **Reps. Smith(24) and Gibbs were absent/excused.**

**VOTE ON
ORIGINAL
MOTION:** **Chairman Lake** called for a vote on the original motion to introduce **RS 21289C1.** **Motion carried by a voice vote.** **Reps. Barrett and Harwood** asked to be recorded as voting **NAY.**

H 563:

Rep. Moyle presented **H 563** which lowers individual, LLC and C Corporation tax rates and makes them more competitive. Idaho is open to do business and this acknowledges that fact. It encourages development to come to Idaho.

David Hensley, Office of the Governor, said **H 563** is a simple approach to provide tax relief. It will help sustain the positive trends by eliminating the top individual bracket.

In response to Committee questions, **Mr. Hensley** said the Governor's office believes this will help small businesses that normally file their taxes under the individual tax brackets. It will also help the wage earner who makes \$13/hour. It is a good first step. The Governor is appreciative that the bill from his office has had a hearing. The goal is a balanced budget.

Wayne Hammond, Division of Financial Management, spoke **in favor** of **H 563**. A prudent budget includes tax relief. The budget revenue amount includes a 4.5% growth. There is actually \$33M less in revenue when you consider one-time vs. ongoing expenditures. That money was used to fill gaps in the budget. There is sufficient room in the budget for tax relief.

In response to Committee questions, **Mr. Hammond** said if \$50M or \$70M every year is classified as one-time, it could be argued that it is really ongoing. The State Economist provides unadulterated fact vs. forecast. Ongoing revenue is actually much higher. We could potentially end this year with a \$150M carryover, so a portion is definitely ongoing. Those budget figures are used for ongoing expenditures. The actual carryover for 2012 is \$65M. The percentages change frequently and are calculated based on prior years.

The reason for extreme growth in expenditures is that a number of items haven't been funded in the past. Since 2009, the State has been very careful with the cash resources. We are in recovery, but still need to be careful. The percentage of filers who are in tax brackets that generate zero dollars is 29.11%.

John Watts, Idaho Chambers of Commerce Alliance, said **H 563** is a good first step. It was brought forward as a very aggressive approach and was later scaled back. Idaho needs a sound tax policy. He has participated in four economic forums and the information that comes out is that his members want more jobs, tax cuts, lower health care costs, and a cleaner playing field. Over 80% of chamber member businesses filed individual tax returns, not corporate tax returns. Business growth in Idaho is flat and stagnant. This year growth is up by 24 businesses from last year. There are 606,000 individual filers in Idaho. If we don't do this, we can't rely on the federal government to do it for us.

Donna Yule, Idaho Public Employees Association (IPEA), spoke **in opposition** to **H 563**. We shouldn't be addressing tax relief at this stage. This is a relatively small tax break. The State needs to have crucial funds to pay for necessary things. The state police force is understaffed. Bridges are in need of repair, but there is no money to do that. The tax on fuel is not enough to maintain the roads. We need more revenue, not less.

Jeff Sayer, Department of Commerce, spoke **in favor** of **H 563**. He said there are benefits to this legislation. We need to protect and retain existing companies, as well as attract new companies. This is far-reaching legislation. The corporate tax rate sticks out when talking to companies considering relocation. The message we send to the nation is significant.

In response to Committee questions, **Mr. Sayer** said the state is fulfilling its responsibilities to the citizens by taking steps forward. Having the business rate go down moves us upward on the ranking list.

Randy Nelson, Associated Taxpayers of Idaho (ATI), spoke regarding **H 563**. He said our ranking can change without doing anything, just because other states rankings change. The categories used to calculate the rankings are weighted.

Alex LaBeau, Idaho Association of Commerce & Industry, (IACI) spoke **in favor** of **H 563**. This bill equalizes the rate between S Corps and C Corps. Previous testifiers are precise in their conversation about the effects of the legislation.

Suzanne Budge, National Federation of Independent Business (NFIB) spoke **in favor** of **H 563**. Her organization stands in support of this bill.

Rep. Hagedorn spoke **in favor** of **H 563**. If only \$400 is saved by each taxpayer in a community of 1,000, that's \$400K that goes back into the community. The 7.8% and 7.6% rates are too high. The money belongs to the taxpayer and they spend it better than the government does.

Russ Hendricks, Idaho Farm Bureau Federation, stands in support of **H 563**.

Committee discussion included comments that we need to be careful to meet the needs of the State before cutting taxes. We should not cut taxes when we can't meet the needs of the people and we have no reserves. We should use tax policy to grow the economy. This bill has a \$35M price tag. Too many agencies are cut past the bone. There may be serious public safety issues in this state by trying to save money. We need a tax cut bill that makes us better off.

MOTION: **Rep. Roberts** made a motion to send **H 563** to the floor with a **DO PASS** recommendation.

ROLL CALL VOTE: Roll call vote was requested. **Motion carried by a vote of 13 AYE, 4 NAY, 1 Absent/Excused.** **Voting in favor** of the motion: **Reps. Collins, Barrett, Moyle, Raybould, Roberts, Schaefer, Wood(35), Bedke, Harwood, Barbieri, Bayer, Ellsworth, Gibbs.** **Voting in opposition** to the motion: **Reps. Killen, Burgoyne, Rusche, Lake.** **Rep. Smith(24) was absent/excused.** **Rep. Moyle** will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 11:00 am.

Representative Lake
Chair

Janet Failing
Secretary